

## Message Text

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ACTION EB-04

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C O N F I D E N T I A L SECTION 01 OF 02 LONDON 13939

LIMDIS GREENBACK

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: XGDS-1

TAS: EFIN, UK

SUBJECT: H.M. TREASURY AND BANK OF ENGLAND ON IMF/IBRD  
MEETINGS AND INTERNATIONAL MONETARY QUESTIONS

SUMMARY: H.M. TREASURY AND BANK OF ENGLAND OFFICIALS WHO  
ATTENDED IMF/IBRD MEETINGS CONSIDER THEY WENT AS WELL AS  
COULD HAVE BEEN EXPECTED IN CIRCUMSTANCES. H.M. TREASURY  
ANTICIPATES A QUIET SEPTEMBER-OCTOBER IN INTERNATIONAL  
MONETARY AFFAIRS. FORTHCOMING LABOR PARTY CONFERENCE WILL  
HEAR CALLS FOR IMPORT CONTROLS WHICH PRIME MINISTER  
AND CHANCELLOR EXPECTED TO RESIST SUCCESSFULLY. LOOKING  
AHEAD, H.M. TREASURY EXPECTS CURRENT ACCOUNT DEFICIT THIS  
YEAR IN RANGE OF ONE BILLION POUNDS WITH SLIGHTLY HIGHER  
CURRENT ACCOUNT DEFICIT NEXT YEAR. ONE OF THE OP-  
TIONS UNDER CONSIDERATION IS AN IMF BORROWING. SOURCES  
GENERALLY SATISFIED WITH THE CURRENT STERLING EXCHANGE  
RATE AGAINST DOLLAR AND OTHER MAJOR CURRENCIES, AND  
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EXPECT STERLING TO DECLINE FURTHER IN COMING MONTHS.

END SUMMARY.

1. H.M. TREASURY AND BANK OF ENGLAND SOURCES BRIEFED FINANCIAL ATTACHE ON UK REACTION TO LAST WEEK'S IMF AND IBRD SESSIONS AND OTHER INTERNATIONAL MONETARY QUESTIONS. THEY CONSIDER THAT LAST WEEK'S MEETINGS, IF ANYTHING, WENT BETTER THAN EXPECTED WITH SOME LIMITED PROGRESS BEING MADE. THEY SEE BILATERAL DISCUSSIONS BETWEEN U.S. AND FRANCE AS HOLDING THE KEY TO FUTURE OF THE EXCHANGE RATE REGIME AND ANTICIPATE THAT MAJOR PROBLEM WILL BE FINDING DRAFT LANGUAGE THAT WILL SATISFY BOTH U.S. AND FRANCE AND ENABLE EACH TO BELIEVE THAT ITS LONG-TERM INTERESTS AND ADVOCACY OF DIFFERENT EXCHANGE RATE REGIMES ARE PROTECTED. IF FRENCH ARE ANXIOUS FOR A SUMMIT MEETING THEY MAY MAKE CONCESSIONS. ON OTHER HAND, ONE SOURCE SPECULATED FRENCH MAY BE BIDDING TIME UNTIL AFTER JANUARY INTERIM COMMITTEE SESSION. WHICH WOULD ALSO HAVE BENEFIT OF REMOVING SOME ITALIAN PRESSURE TO ATTEND SUMMIT SINCE BY THAT TIME LUXEMBOURG WILL HAVE REPLACED ITALY IN ROLE AS CHAIRMAN OF EC COUNCIL. AND QUOTE LUXEMBOURGERS KNOW THEIR PLACE UNQUOTE WON'T MAKE PROBLEMS ON ATTENDANCE.

2. U.S. PROPOSALS MADE IN SPEECHES OF SECRETARY KISSINGER AND SECRETARY SIMON WERE NOTED WITHOUT ARTICULAR COMMENT EXCEPT FOR SOME QUESTION OF HOW MUCH THEY WILL ACTUALLY COST, HOW PRECISELY THEY WILL BE PAID FOR AND EXTENT TO WHICH THEY WILL DIVERT RESOURCES FROM OTHER EXISTING FACILITIES. U.K. CONSIDERS THAT IMF MAY HAVE A DELICATE JOB ON ITS HANDS IN SELLING ITS GOLD, ESPECIALLY IF IMF HOPES FOR A ROUGH PROFIT IN AREA OF \$100 PER OUNCE. ADMONITION TO IMF NOT TO DISTURB MARKET, NOT TO PEG PRICE AND AT SAME TIME TO MAXIMIZE PROFIT APPEARS CONTRADICTION. IMF STAFF REPORTED PIQUED AT DECISION RETURNING GOLD TO CENTRAL BANKS. FOR ITS PART, UK DOES NOT INTEND TO EITHER BUY OR SELL GOLD UNDER THE NEW ARRANGEMENTS. UK PLEASED WITH REACTION IN WASHINGTON TO CHANCELLOR HEALEY'S SPEECH. IN JOCKULAR VEIN, SOURCE ADDED THAT MOST PLEASANT SURPRISE DURING COURSE OF THE MEETINGS WAS THE BIRTHDAY CAKE SECRETARY SIMON PRESENTED TO CHANCELLOR HEALEY.

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3. LOOKING AHEAD, HMT ANTICIPATES A QUIET SEPTEMBER AND OCTOBER IN INTERNATIONAL MONETARY DELIBERATIONS. THERE IS SOME CONSIDERATION BEING GIVEN TO CANCELLING THE SCHEDULED SEPTEMBER MEETING OF EC FINANCE MINISTERS WITH NEXT SERIOUS ROUND OF EC MONETARY DELIBERATIONS NOT LIKELY TO BE HELD BEFORE MID TO LATE OCTOBER. HMT STAFF GIVING CONSIDERATION TO SUGGESTING THAT EC COMMISSION MIGHT BEEF UP SECRETARIAT TYPE WORK ON NATIONAL MONETARY

POLICIES. UK CONSIDERS EC COMMISSION OFFICIALS DECIDEDLY  
SECOND RATE COMPARED WITH OECD SECRETARIAT IN UNDERSTAND-  
ING OF BOTH INSTITUTIONAL AND OPERATIONAL ASPECTS OF  
MONETARY POLICIES OF INDIVIDUAL EC COUNTRIES AND THEIR

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 13939

LIMDIS GREENBACK

INTERACTION ON EACH OTHER.

4. THE NIESR'S LATEST FORECASTS MENTIONED IN PASSING  
(LONDON 13445), WITH HMT TAKING A MORE PESSIMISTIC LINE  
THAN NIESR ON LIKELY OUT TURN OF UK BALANCE OF PAYMENTS  
IN 1975 AND 1976. LATEST HMT INTERNAL FORECAST PUTS  
SIZE OF CURRENT ACCOUNT DEFICIT ROUGHLY AT ONE BILLION  
POUNDS THIS YEAR, SLIGHTLY MORE NEXT YEAR. SAY 1.1 OR 1.2  
BILLION POUNDS, IN PART BECAUSE OF REBUILDING OF INVEN-  
TORIES. IF UK BALANCE OF PAYMENTS PERFORMANCE IS BETTER  
NEXT YEAR -- AND A VERY WIDE RANGE OF POTANTIAL OUTCOME  
IS POSSIBLE IN 1976 -- IN PART IT WOULD BE BECAUSE WORLD  
ECONOMIC UPTURN TAKES PLACE SOONER THAN EXPECTED AND  
OOMEISTIC UK ECONOMIC REVIVAL TAKES PLACE LATER THAN

EXPECTED. THERE IS SOME CONSIDERATION BEING GIVEN TO A POSSIBLE IMF DRAWING. SOURCE BELIEVED THAT CURRENT DOMESTIC ECONOMIC POLICY HERE WOULD LARGELY FIT IMF CONDITIONS FOR A NORMAL DRAWING (RATHER THAN FROM OIL FACILITY) EXCEPT ON THE SIZE OF PUBLIC EXPENDITURE DEFICIT. OUTSIDE PRESSURE TO REDUCE BUDGET DEFICIT MIGHT BE WELL-CONFIDENTIAL

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COMED BY THE CHANCELLOR.

5. UK OFFICIALS ARE NOT UPSET BY CURRENT LEVEL OF STERLING IN FOREIGN EXCHANGE MARKETS, EXPECT SOME FURTHER DECLINE IN STERLING DURING COMING MONTHS GIVEN DIFFERENTIAL RATES OF INFLATION. IN RECENT WEEKS, WHEN TEMPORARY MARKET FORCES WOULD HAVE MOVED STERLING UPWARDS, BANK OF ENGLAND INTERVENED, SELLING STERLING, ADDING TO RESERVES, RATHER THAN SEE TEMPORARY UPWARD MOVEMENT THAT WOULD IN ANY CASE EVENTUALLY BE REVERSED BY UNDERLYING TRENDS.

6. DESPITE FORECASTING A QUIET SEPTEMBER, HMT ANTICIPATES STRONG CALLS FOR IMPORT QUOTAS AND RESTRICTIONS TO BE HEARD AT LABOR PARTY CONFERENCE BEGINNING SEPTEMBER 29. CHANCELLOR HAS APPARENTLY DEFINITELY RULED OUT POSSIBILITY OF AN AUTUMN BUDGET, WITH NO FURTHER FORMAL BUDGETARY MEASURES TO BE TAKEN BEFORE NEXT SPRING. IN THE INTERIM, HEALEY IS PLANNING A SERIES OF HIGHLY PUBLICIZED, JOB-CREATING AND/OR EMPLOYMENT SUSTAINING MEASURES THAT WILL NOT HAVE MUCH REFLATIONARY IMPACT ON THE ECONOMY. DECISIONS ABOUT SHAPE OF NEXT SPRING'S BUDGET WILL BEGIN TO BE CONSIDERED NEXT JANUARY AND FEBRUARY. LOOKING TO MEDIUM TERM. CHANCELLOR REPORTEDLY QUITE CONCERNED ABOUT FALL OFF IN PRIVATE INVESTMENT AND NEED TO REVERSE THE TREND. SOURCE SAID THERE ARE RUMOURS IN H.M. TREASURY THAT ENERGY MINISTER WEDGWOOD BENN MAY BE PLANNING TO RESIGN, USING HEALEY'S POLICIES AS PART OF THE EXCUSE OR RATIONALE, AND HEALEY WILL BE TAKING THIS INTO ACCOUNT IN HIS OWN PUBLIC POSTURE AND STATEMENTS ON DOMESTIC ECONOMIC SITUATION. ONE SOURCE REMARKED HEALEY'S OWN DOMESTIC POWER BASE IS NOT AS STRONG AS HIS POSITION VIS-A-VIS HIS FELLOW FINANCE MINISTERS. PLEASE TREAT ABOVE AS NOFORN.

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